

//KHARA HAIS MUNICIPALITY



POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT (REVIEWED)

~~June 2009~~ 30 May 2014

Approved by Council: 30 ~~June 2009~~ May 2014

Date of implementation: ~~30 June 2009~~ 01 July 2014

//KHARA HAIS MUNICIPALITY
POLICY ON THE WRITING OFF OF IRRECOVERABLE DEBT

1. INTRODUCTION

~~1.1 1.1 To ensure that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services, the Council of //Khara Hais Municipality approved a Customer Care, Credit Control, Debt Collection and Indigent Support Policy.~~

Despite strict enforcement of the Customer Care, Credit Control, Debt Collection and Indigent Support Policy~~above policy~~, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt.

~~To allow this the policy, inter alia, stipulates that:-~~

Debt Collection: Abandonment of Claims

~~(21) The Municipal Manager must ensure that all avenues are utilised to collect the municipality's debt.~~

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~~(22) There are some circumstances that allow for the valid termination of debt collection procedures as contemplated in section 109(2) of the Systems Act, such as:~~

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~~(a) The insolvency of the debtor, whose estate has insufficient funds.~~

~~(b) A balance being too small to recover, for economic reasons, considering the cost of recovery.~~

~~(c) Where Council deems that a customer or groups of customers are unable to pay for services rendered.~~

~~(23) The municipality will maintain audit trails in such an instance, and document the reasons for the abandonment of the action or claim in respect of the debt."~~

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2. PURPOSE OF THE POLICY

- 2.1 The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

3. RESPONSIBILITY / ACCOUNTABILITY

- 3.1 The Council has the overall responsibility for adopting and approving the Policy and Principles on Writing Off of Irrecoverable Debt.

4. POLICY PRINCIPLES

- 4.1 The following are the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt –

- 4.1.1 The policy is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal System Act 2000, as amended and other related legislation.

- 4.1.2 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as –

(a) Where the tracing of the debtors is unsuccessful; and

(b) All reasonable steps, ~~at the discretion of the appointed write off committee,~~ were taken by the officials to recover the debt.

~~(b)~~(c) Where the outstanding debt prescribes in terms of the Prescription Act 68 of 1969.

4.1.3 Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are slim, a write off should be considered.

4.1.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

~~Differentiation must be made between those household consumers who cannot afford to pay for basic services and those who just do not want to pay for these services.~~

4.1.5 Debt can only be written off if the required provision for bad debts exists in the Municipality's budget and/or reserves.

5. CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT

5.1 Balances too small to recover considering the cost for recovery

5.1.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalisation of any final readings and other administrative costs results in a balance of one thousand rand (R 1,000) or less or the amount determined by Council from time to time during the budget approval process, such amount must be written off with the proviso that –

- (a) When the balance amounts to R 200 or less or the amount determined by Council from time to time during the budget approval process; the account must be forwarded once to the consumer for payment;

- (b) When the balance amounts to R 500 or less or the amount determined by Council from time to time during the budget approval process; the account must be forwarded once to the consumer with a follow-up reminder for payment;
- (c) When the balance amounts to R 1,000 or less or the amount determined by Council from time to time during the budget approval process; the account must be forwarded once to the consumer with a follow-up reminder and a final reminder for payment.

5.1.2 Where such account as stipulated in 5.1.1 (a), (b) and (c) is not paid by the respective consumer within a period of ninety-hundred and twenty (90120) days such amounts will automatically be written off subject to the provisions of Section 6.1 below.

5.2 Insolvency of the Debtor and Insolvent Deceased Estates

5.2.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds must be written off subject to the provisions of Section 6.1 - 6.3 below.

5.2.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds must be written off subject to the provisions of Sections 6.1- 6.3 below.

5.3 Untraceable Debtors

5.3.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to a collection agent for recovery of the debt. ~~The~~

~~collection agent will be paid an all-inclusive fee of not more than 10% of the amount that was collected.~~ The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.

5.3.2 Any amount owed by a debtor that has become untraceable must be written off or sold to a debt collection agency at a discount.

5.3.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

6. ~~Special Arrangements in order to obtain a Clearance Certificate~~

~~5.5.1 In terms of legislation the Municipality will under normal circumstances not issue a clearance certificate on any property unless all outstanding amounts are paid to date. However due to the possible inefficiency of the Municipality to implement its Customer Care, Credit Control, Debt Collection and Indigent Support Policy it might be possible that such a property may have accumulated such a significant outstanding balance over a period of time that it may not be within the ability of the new owner to pay such an amount in order to obtain a clearance certificate.~~

~~5.5.2 Where such circumstances may prevail the prospective new owner may apply to the Municipality for relief of such outstanding debt or a portion thereof.~~

~~5.5.3 Such application, upon receiving, must be submitted to the committee for consideration. In reviewing such application, the committee must ensure that—~~

~~(a) All reasonable measures have already been taken to recover the outstanding amount from the current debtor.~~

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~~(b) The prospective buyer of the property is not in a financial position to settle the outstanding amount before a clearance certificate is issued.~~

~~(c) It is not in the interest of the municipality and/or the community to withhold a clearance certificate before the outstanding debt is fully paid.~~

~~5.6 Special Incentives introduced by Council for Household Consumers in terms of the Approved Revenue Enhancement Strategy~~

~~Notwithstanding the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions—~~

~~(a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;~~

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~~(b) The current monthly amount must be paid in full; and~~

~~(c) The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.~~

~~5.6.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (i.e. amount not to exceed 20% of gross income), taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.~~

~~5.6.3 Due to ineffective implementation of credit control measures in the past, the majority of household consumers have accumulated significant arrear amounts and that these consumers are not in a position to pay off these~~

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~~arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Municipality has resolved to implement special incentives to address the arrear debt.~~

~~5.6.4 To encourage consumers to pay off arrear debt Council will enter into a once-off arrangement, with a household consumer only, to pay off his/her arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.~~

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~~5.6.5 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy (maximum repayment period of 36 months) and the repayment limitations of 20% of gross income referred to in Sub-Section 5.6.2 above.~~

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~~5.6.6 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.~~

~~5.6.7 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.~~

~~5.6.8 When a debtor who does not want to make arrangements for the repayment of his/her arrear account as set out in Sub-Section 5.6.2 pays 50% on the principal portion of his/her arrear account through a once-off payment, the remaining 50% on the principal portion and all interest penalties on arrear amounts will be written off immediately.~~

~~5.6.9 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount (taking the limitations of Sub-Section 5.6.2 into consideration) excluding arrear interest. Such an arrangement should be honoured for at least a six-month consecutive period where after interest on arrear amounts will be written off on a monthly basis. This arrangement will imply that upon payment of the final instalment all interest on arrear amounts will have been written off.~~

~~5.6.10 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.~~

~~5.6.11 The arrangement referred to in paragraph 5.6.5 may be extended to other Poverty Alleviation & Job Creation Strategies that the Municipality may implement. Such strategies may include—~~

- ~~(a) The casual/contract employment of a debtor in a particular Municipal project (i.e. refuse collection, road maintenance, verge cutting etc.).~~
- ~~(b) A 80% cash payment to the debtor and 20% payment that will be credited against the debtor's arrear account.~~
- ~~(c) The accounting treatment shall be that the project or programme will be debited (charged) the full 100% as this will be the input cost of the labour (100% cost paid out as 80% cash paid to the debtor and 20% credited against the debtor's arrear account as though it were a cash payment).~~
- ~~(d) The purpose of the above strategy/arrangement is to instil a sense of pride to the customers of the Municipality that cannot pay off their arrears, whilst extending services delivery, creating jobs, and~~

~~alleviating poverty, and at the same time reducing the Debtors Book and enhance the financial status and image of the Municipality.~~

~~5.6.13 Any amount to be written off in terms of paragraph 5.6 above must be subject to the provision of Section 6.4 and 6.5 below.~~

~~5.7 — Churches, Welfare Organisations and Emerging Farmers~~

~~5.7.1 Notwithstanding the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions—~~

- ~~(a) — The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;~~
- ~~(b) — The current monthly amount must be paid in full; and~~
- ~~(c) — The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.~~

~~5.7.2 In order to improve the current payment levels from this category of consumers the Municipality has resolved to implement special incentives to address the arrear debt.~~

~~5.7.3 To encourage consumers to pay off arrear debt Council will enter into a once-off arrangement with this category of consumers to pay off their arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.~~

~~5.7.4 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy (maximum repayment period of 12 months).~~

~~5.7.5 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.~~

~~5.7.6 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.~~

~~5.7.7 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear account as set out in Sub-Section 5.7.4 pays 50% on the principal portion of their arrear account through a once-off payment, the remaining 50% on the principal portion and all interest penalties on arrear amounts will be written off immediately.~~

~~5.7.8 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount excluding arrear interest. Such an arrangement should be honoured for at least a six month consecutive period where after interest on arrear amounts will be written off.~~

~~5.7.9 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.~~

~~5.7.10 Any amount to be written off in terms of paragraph 5.7 above must be subject to the provision of Section 6.4 and 6.5 below.~~

5.8 — Businesses

~~5.8.1 Notwithstanding the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy a debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions—~~

- ~~(a) The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;~~
- ~~(b) The current monthly amount must be paid in full; and~~
- ~~(c) The written agreement has to be signed on behalf of the Municipality by a duly authorised officer.~~

~~5.8.2 In order to improve the current payment levels from this category of consumers the Municipality has resolved to implement special incentives to address the arrear debt.~~

~~5.8.3 To encourage consumers to pay off arrear debt Council will enter into a once-off arrangement with this category of consumers to pay off their arrear debt over a period of time in terms of specific incentives. The main aim of an agreement will be to promote full payment of the current account and to address the affordable arrears on a consistent basis.~~

~~5.8.4 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Customer Care, Credit Control, Debt Collection and Indigent Support Policy (maximum repayment period of 6 months).~~

~~5.8.5 Levying of interest on arrear accounts (arrear account to be created separately from the current account) should immediately be suspended upon completion of a debt agreement. This will allow debtors to see progress on their accounts as continued payments will reflect a decrease on the arrear account balances.~~

~~5.8.6 As long as the agreement is honoured no further interest will be added. However, in case of default the suspended amount will be reversed and interest will again be levied from the date of default.~~

~~5.8.7 When a debtor in this category of consumers who does not want to make arrangements for the repayment of their arrear account as set out in Sub-Section 5.8.4 pays 50% on the principal portion of their arrear account through a once-off payment, the remaining 50% on the principal portion and all interest penalties on arrear amounts will be written off immediately.~~

~~5.8.8 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount excluding arrear interest. Such an arrangement should be honoured for at least a six-month consecutive period where after interest on arrear amounts will be written off.~~

~~5.8.9 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.~~

~~5.8.10 Any amount to be written off in terms of paragraph 5.8 above must be subject to the provision of Section 6.4 and 6.5 below.~~

~~5.9 Government Departments and Schools~~

~~5.9.1 Any incentive arrangement and amount to be written off will be reviewed by the to be established Committee who will make a recommendation to Council~~

~~via the Committee for Financial Viability and Executive Committee for consideration.~~

~~6. ESTABLISHMENT OF A COMMITTEE TO MONITOR ANY DEBT TO BE WRITTEN OFF~~DELEGATION OF AUTHORITY

~~6.1 Council will establish and appoint a Committee to monitor the implementation of this Policy.~~

~~6.2 The Committee will consist of the following members—~~

~~(a) The Chairperson of the Committee for Financial Viability (Chairperson);~~

~~(b) One other member of the Executive Committee (Alternative Chairperson);~~

~~(c) The Municipal Manager; and~~

~~(d) Chief Financial Officer.~~

~~6.3 The above Committee will meet at least quarterly to receive and review a report from the Chief Financial Officer containing full details of any actions taken by officials with respect to this Policy, and to consider any circumstances not covered by this Policy.~~

~~6.3.1 The quorum for the Committee shall be 50% of the members plus one.~~

~~6.3.2 Formal minutes of Committee meetings must be prepared and submitted to Council via the Committee for Financial Viability and Executive Committee.~~

- 6.1 The Chief Financial Officer will, after thorough review of any applications in terms of this Policy, be delegated to write off any amounts in the case of a household consumer to the maximum of R 10,000 (excluding interest and penalties) per submission or the amount determined by Council from time to time during the budget approval process.
- 6.2 Any amount in excess of the delegation provided for in paragraph 6.1 above must be submitted together with a recommendation to the Municipal Manager for consideration. The Municipal Manager will, after thorough review of any recommendation by the Chief Financial Officer and in terms of this Policy, be delegated to write off any amounts in the case of a household consumer to the maximum of R 20,000 (excluding interest and penalties) per submission or the amount determined by Council from time to time during the budget approval process.
- 6.3 Any amount in excess of the delegation provided for in paragraph 6.2 above and in the case of a business consumer and other consumers may only be reviewed by the Committee and must be submitted together with a recommendation to Council via the Committee for Financial Viability and Executive Committee for consideration.
- 6.4 All amounts to be written off in terms of Section 6.1 and Section 6.2 above must be considered individually and each case on its own merits must be separately reported to the Committee.

7. IMPLEMENTATION AND REVIEW OF THIS POLICY

- 7.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.